

*(closed to new investors)*

The Composite increased 0.99%, net of fees, compared to a 4.70% increase in the Russell 2500 Index and a 2.67% increase in the Russell 2500 Value Index.

The Composite's holdings in the health care, information technology, and industrials sectors were the largest contributors to absolute return, while the consumer discretionary sector was the largest detractor. Holdings in the real estate and energy sectors also detracted from return.

The Composite's underperformance relative to the Index was primarily driven by security selection in the consumer discretionary, industrials, and real estate sectors. An overweight allocation to financials coupled with poor security selection also detracted from relative return. Security selection in the health care sector was the largest contributor to relative return but was partially offset by a significantly underweight position in the sector.

## Best Performers

- Electronic payment services provider **Worldpay, Inc.** outperformed after the company reported solid revenue and earnings. Management has identified revenue synergies related to the Vantiv-Worldpay merger and investors are encouraged by the international expansion opportunities in e-commerce.
- Shares of hospital owner and operator **LifePoint Health, Inc.** rose after the company was acquired by RCCH HealthCare Partners, which is owned by the private equity segment of Apollo Global Management. The transaction is expected to close during the fourth quarter of 2018.
- Medical device manufacturer **Boston Scientific Corp.** outperformed after the company reported better-than-expected quarterly results led by the U.S. launch of its Spectra WaveWriter for neuromodulation. The company is also making progress with the re-certification of its Lotus aortic valve and is pursuing reasonable acquisitions within urology.
- Food products manufacturer **Post Holdings, Inc.** outperformed after reporting solid quarterly results. The company continues to see strong, broad-based growth across its portfolio of businesses while also showcasing best-in-class capital allocation.

## PORTFOLIO MANAGEMENT



Chris Welch, CFA  
Portfolio Manager



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Asst. Portfolio Manager



Tom Schindler, CFA  
Asst. Portfolio Manager

- Rental and leasing services company **Aaron's, Inc.** outperformed after reporting strong Progressive Leasing revenues and improved credit metrics. Trends have stabilized in the Aaron's stores, with same store sales down marginally in the quarter but total revenues slightly positive. Management now expects same store sales to turn positive in the fourth quarter after showing negative trends for several years.

## Worst Performers

- Shares of casino operator **Red Rock Resorts, Inc. (CI A)** declined amid concerns regarding weakness in Las Vegas Strip room pricing and visitation during the latter half of the year. Additionally, large renovations at Palace Station and The Palms are closer to the Las Vegas Strip and are more susceptible to this weakness. Overall, the near-term volatility does not change our long-term thesis on the company.
- Shares of **BankUnited, Inc.**, a regional bank based in Florida, declined after the appointment of a new board member and the resignation of the board chairman led some to conclude that the probability of the franchise being sold is lower than expected. Uncertainty about the path of earnings through 2019 due to the expiration of FDIC loss share also caused investor caution.
- Shares of homebuilder **NVR, Inc.** declined, despite reporting generally good quarterly results. New orders came in lower than expected, and there is significant bearish sentiment surrounding the homebuilding industry due to the rise in interest rates and concerns regarding affordability.
- Underperformance of oil and gas exploration and production company **Cimarex Energy Co.** likely reflects concern about widening price differentials in 2019. We believe the widely-discussed infrastructure bottlenecks in the Permian Basin will be a 12- to 18-month event and that Cimarex is well-positioned to continue executing on development projects.



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- Shares of **Bank OZK**, a regional bank based in Arkansas, declined as loan growth was lower than expected due to a slowing commercial real estate market and accelerating repayments of existing loans. Fears over rising deposit costs have also weighed on shares amid concerns of net interest margin pressure.

## New Positions

- Children's apparel manufacturer **Carter's, Inc.** has the largest share in children's clothing, a stable-demand category that performs well through-cycle. The stock has experienced price volatility due to near-term issues in its wholesale business after one of its larger partners, Toys R Us, closed. We used this opportunity to initiate a position in this high-quality business with a strong management team and a leading brand at a deep discount to our estimate of intrinsic value. We believe Carter's will work through the near-term volatility in its wholesale business, and continue to take share in the children's apparel category.
- We initiated a position in **RenaissanceRe Holdings Ltd.**, a Bermudian reinsurance company with a long history of value creation. The company has a strong underwriting track record, excellent management team, and unique assets across Bermuda and Lloyd's of London. The firm has unique intellectual property in catastrophe reinsurance allowing it to optimize reinsurance transactions across a range of vehicles.

- Electronics component manufacturer **Sensata Technologies Holding PLC** makes sensors and controls for automotive and industrial applications. Sensata is a very well-run business with above-average operating margins and attractive returns on invested capital.
- We received shares of **WMIH Corp.**, a shell company with a large tax loss balance, when it completed the acquisition of our holding **Nationstar Mortgage Holdings, Inc.** There are no operational changes at Nationstar as it is simply under a new ownership structure.

## Eliminated Positions

- We sold our shares of property and casualty insurance company **Validus Holdings Ltd.** in an all-cash acquisition by AIG.
- AXA completed its all-cash acquisition of insurance company **XL Group Ltd.** in September.

# Diamond Hill Small-Mid Cap Strategy

As of September 30, 2018

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## PERIOD & ANNUALIZED RETURNS (%)

Inception Date: December 31, 2005

	SINCE INCEPTION	10-YR	5-YR	3-YR	1-YR	YTD	3Q18
SMALL-MID CAP COMPOSITE							
Gross of Fees	10.10	12.63	10.45	11.13	5.84	3.33	1.17
Net of Fees	9.30	11.83	9.68	10.34	5.09	2.77	0.99
BENCHMARKS							
Russell 2500 Index	9.39	12.02	11.37	16.13	16.19	10.41	4.70
Russell 2500 Value Index	8.24	10.53	9.99	14.51	10.24	5.75	2.67

## CALENDAR YEAR RETURNS (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
SMALL-MID CAP COMPOSITE										
Gross of Fees	-29.38	41.71	24.74	-2.96	16.93	43.32	8.43	2.45	19.31	9.63
Net of Fees	-29.99	40.52	23.72	-3.62	16.19	42.39	7.70	1.75	18.47	8.85
BENCHMARKS										
Russell 2500 Index	-36.79	34.39	26.71	-2.51	17.88	36.80	7.07	-2.90	17.59	16.81
Russell 2500 Value Index	-31.99	27.68	24.82	-3.36	19.21	33.32	7.11	-5.49	25.20	10.36

Diamond Hill Capital Management Inc. (DHCM) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS Standards. Diamond Hill has been independently verified for the period 5/31/00 – 6/30/18. Diamond Hill's current verification firm is ACA Compliance Group. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. In addition the Small-Mid Cap Composite has received a Performance Examination from 12/31/05 – 6/30/18. The verification and performance exam reports are available upon request. Diamond Hill is a registered investment adviser and wholly owned subsidiary of Diamond Hill Investment Group, Inc.; registration does not imply a certain level of skill or training. Diamond Hill provides investment management services to individuals and institutional investors through mutual funds, separate accounts, exchange traded funds and private investment funds. A complete list and description of all composites and policies for valuing portfolios, calculating and reporting returns, and preparing compliant presentations are available upon request. The Small-Mid Cap Composite is comprised of discretionary fee paying non-wrap accounts managed according to the firm's Small-Mid Cap equity strategy. The strategy's investment objective is to achieve long-term capital appreciation by investing in small and medium capitalization companies selling for less than our estimate of intrinsic value. The Composite typically invests in small and medium capitalization companies which are defined as those companies with a market capitalization between \$500 million and \$10 billion (or, if greater, the maximum market capitalization of companies generally within the capitalization range of the Russell 2500 Index) at the time of purchase. The Composite results reflect the reinvestment of dividends, capital gains, and other earnings when appropriate. Composite returns and benchmark returns are presented gross of withholding taxes on dividends, interest income and capital gains. Returns are calculated using U.S. Dollars. Net returns are calculated by reducing the gross returns by either the actual client fee paid or the highest stated fee in the Composite fee schedule, depending on the type of client and account, and are reduced by estimated accrued performance based fees where applicable. Only transaction costs are deducted from gross of fees returns. The Russell 2500 Index is the primary benchmark. This index is an unmanaged market-capitalization weighted index measuring the performance of the 2,500 smallest companies, on a market capitalization basis, in the Russell 3000 Index. The Russell 2500 Value Index is shown as additional information. This index is an unmanaged market capitalization weighted index measuring the performance of the small and midcap value segment of the U.S. equity universe including those Russell 2500 Index companies with lower expected growth values. The Russell 3000 Index is an unmanaged market-capitalization weighted index measuring the performance of the 3,000 largest U.S. companies based on total market capitalization. Our selection process may lead to portfolios that differ markedly from the benchmarks presented. Returns may be more volatile than, and/or may not be correlated to these indices, which are for comparative purposes only. The Firm's standard fee schedule for Small-Mid Cap separate accounts is as follows: First \$20,000,000 = 0.85%; Over \$20,000,000 = 0.75%. The dispersion measure is the asset weighted standard deviation of the annual portfolio returns.

AS OF YEAR-END	DHCM	SMALL-MID CAP COMPOSITE			3-YR ANNUALIZED STANDARD DEVIATION (GROSS OF FEES)		
		Assets Under Management	Number of Accounts	Assets Under Management	Dispersion (Gross of Fees)	Small-Mid Cap Composite	Russell 2500 Index
2017	\$22.3B	16	\$3.2B	0.10%	9.97%	12.13%	11.81%
2016	19.4B	18	3.0B	0.05	11.25	13.67	13.17
2015	16.8B	12	1.9B	0.17	11.09	12.42	12.02
2014	15.7B	11	1.1B	0.13	11.20	11.67	11.25
2013	12.2B	9	586.7M	0.39	14.51	15.63	15.07
2012	9.4B	6	233.7M	0.10	16.13	18.97	18.41
2011	8.7B	6	189.2M	0.05	24.12	23.40	24.23
2010	8.6B	6	97.2M	0.16	NA	NA	NA
2009	6.3B	6	64.1M	1.20	NA	NA	NA
2008	4.5B	8	47.9M	0.53	NA	NA	NA

NA = Not Applicable

This composite was created in October 2013.

Only portfolios represented in the Composite for the entire year are included in the calculation. The calculation is not performed if the Composite contains 5 or fewer accounts for the full year. No alteration of composites as presented here has occurred because of changes in personnel at any time. **Past performance is not a guarantee of future results.** It should not be assumed that an investment in the securities identified was or will be profitable. The holdings identified do not represent all of the securities purchased, sold, or recommended for the adviser's clients. To obtain the contribution calculation methodology and a complete list of every holding's contribution to the overall portfolio's performance during the measurement period, please contact 855.255.8955 or info@diamond-hill.com. GIPS is a trademark of CFA Institute. CFA Institute has not been involved in the preparation or review of this report/advertisement.

**Global Investment Performance Standards**